



# *Early Warning Report*

## *Kosovo*

*Report #10*

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**USAID**  
FROM THE AMERICAN PEOPLE



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***EARLY WARNING SYSTEM –  
A systematic Approach to  
Conflict Prevention***

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The Kosovo Early Warning System Project is aimed at building the capacity of local analysts to foresee potential crises, and based on its findings to advise on crisis prevention policies. The Reports are intended as strategic planning, response, and policy tools for development and peace-building actors in Kosovo by deriving recommendations for preventative measures from trend analysis and monitoring of key sector indicators of fundamental conflict-causing factors.

The Early Warning System Project is a UNDP regional initiative; at present most SEE UNDP Programmes produce Early Warning Reports on a periodic basis. The Kosovo Reports are cofunded by USAID and UNDP, and implemented by the Institute for Development Research “Riinvest” and independent Kosovo analysts.

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Your comments and feedback are important for the further development of the Reports. Please forward these to: [early.warning.ks@undp.org](mailto:early.warning.ks@undp.org).

## SELECTED INDICATORS

	May-Aug 2004	Sep-Dec 2004	Jan-Mar 2005	Apr-Jun 2005	Trend
GDP growth rate (annual), %	3.7 <sup>1</sup>		-0.5 <sup>1</sup>		↘
Inflation rate (annual), %	1.5		-1.9 (Jan-May) <sup>2</sup>		↘
Bank deposits, million €	615.6 (Jul)	638.0 (Oct)	704.8 (Feb)	731.2 (May)	↗
Commercial bank loans, million €	327.9 (Jul)	353.1 (Dec)	356.5 (Feb)	400.1 (May)	↗
Trade balance, million €	-660.6 (Jan-Dec)		-219.1 (Jan-Mar)	-308.5 (Jan-Apr)	↘
Registered job-seekers	298,036 (Jul)	300,697 (Nov)	303,095 (Jan)	311,230 (May)	↗
Consumer Price Index, % (compared to May 2002)	99.9 (Jul)	98.0 (Sep)	101.4 (Mar)	100.0 (May)	↘
Basic pensions (per month), €	40	40	40	40	↔
Political pessimism, % ("Not satisfied" or "not satisfied at all" with current political trends)	46.6	38.7	38.6	35.8	↘
Economic pessimism, % ("Not satisfied" or "not satisfied at all" with current economic trends)	70.7	67.7	71.1	69.9	↔
Subjective welfare pessimism, % (Economic situation in the family equal or worse than six months ago)	90.6	87.0	84.7	85.7	↔
Satisfaction with UNMIK's performance*, %	20.7	24.1	29.7	41.4	↗
Satisfaction with SRSG's performance, %	-	69.9	81.2	81.7	↔
Satisfaction with Government's performance, %	71.9	72.2	81.2	67.7	↘
Satisfaction with Assembly's performance, %	59.1	64.5	73.7	63.0	↘
Satisfaction with KFOR's performance, %	81.0	85.7	81.0	87.3	↗
Return of refugees, number of returnees**	12,398 (January 2000 – March 2005)			n.a.	
Personal security, % ("Somewhat safe" or "very safe" while outdoors)	56.2	48.9	62.0	63.5	↗

<sup>1</sup> - IMF estimates, Aide Memoire of April-May 2005

<sup>2</sup> - Compared to the mean value for the January to May 2004 period

\* - "Satisfied" or "very satisfied" with the performance of institutions

\*\* - According to UNHCR data, the total number of returnees during the period 2000-2004 is 11,411

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

BPK	Bank and Payment of Kosovo
CPI	Consumer Price Index
EU	European Union
EWB	Early Warning Report
EWS	Early Warning System
GDP	Gross Domestic Product
IDP	Internally Displaced Persons
IMF	International Monetary Fund
ISSR	Internal Security Sector Review
KCB	Kosovo Consolidated Budget
KFOR	Kosovo Forces
KPS	Kosovo Police Service
KTa	Kosovo Trust Agency
LDK	Lidhja Demokratike e Kosovës/ Democratic Union of Kosovo
MEF	Ministry of Economy and Finance
OSCE	Organization for Security and Cooperation in Europe
PDK	Partia Demokratike e Kosovës/ Democratic Party of Kosovo
PISG	Provisional Institution of Self-Government
SHIK	Shërbimi Informativ i Kosovës/ Kosovo Intelligence Service
SIA	Sigurimi i Atdheut/ Homeland Security
SOE	Socially Owned Enterprises
SOK	Statistical Office of Kosovo
SRSG	Special Representative of Secretary General
SSDAT	Security Sector Development Advisory Team
UN	United Nations
UNDP	United Nations Development Programme
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development
UNHCR	United Nations High Commissariat for Refugees
VAT	Value Added Tax

## *Executive Summary*

### **Key Issues**

- Besides the issue of final status, the future of Kosovo's security sector is one of the most sensitive issues that will be faced in the forthcoming period.
- The political stability is threatened by: i) the stark contrast in views between Pristina and Belgrade about the final status of Kosovo; ii) discords between the Government and the opposition; iii) the boycott of Kosovan institutions by Kosovo Serbs.
- Economic situation experiences adverse effects of decrease of the GDP growth and lack of significant policy changes that would improve the current macroeconomic trends.
- Notwithstanding some encouraging signs concerning inter-ethnic relations, in many aspects there are still huge differences in opinions of Albanians and Serbs.
- Despite the improvement of the overall security situation, some major offences have increased in number during the January to June 2005 period in contrast to the same periods of previous years.

### **Summary of Trends**

- Disagreements between coalition government and the opposition continue on many issues, as do the accusations, including involvement in organized crime.
- Decentralization continues to face challenges in implementation, caused by disagreements regarding pilot municipalities' boundaries including financial difficulties and a public that is poorly informed about the process.
- The collection of the budget revenues at the central level has marked a positive trend. On the other hand, the GDP growth is decreasing, the registered unemployment is rising, and the trade deficit is increasing.
- All ethnic groups continue to be unsatisfied with the economic situation.
- Albanian and Serb respondents continue to hold opposite opinions about the preferred final status of Kosovo and on factors causing tense inter-ethnic relations.
- The opinion poll indicates that corruption is on the rise.

### **Negative Indications**

- Kosovo Albanians and Kosovo Serbs continue to have opposite views on final status: 93% of Albanian respondents and 87% of non-Serb minority respondents are in favor of the independence of Kosovo, while 92.8% of Serb respondents support Kosovo remaining an autonomous province within Serbia.
- A decreasing trend of satisfaction with the work of domestic institutions (Kosovo's Assembly and the Government) is marked compared to the previous reporting period.

- Around 70% of the respondents are “dissatisfied” or “very dissatisfied” with the current economic situation (69% of Albanians, 92% of Serbs, and 60% of non-Serb minorities);
- The overall tax revenue collected in the municipalities during the first five months of this year represents only 20.9% of the projected income (13% lower than the income collected last year).
- Relatively low-resolution rates have been achieved for arson cases (48%), burglaries (24%), robberies (29%), and bombings (40%).
- Based on personal experience of Albanian respondents, within an approximately one-year period the perception of corruption has increased - from 11.7% in July 2004 to 18.3% in June 2005.

### **Positive Indications**

- The pessimism about political situation has continued to decrease: ‘dissatisfied’ or ‘very dissatisfied’ are 32% of Albanian respondents, 97% of Serb respondents and 27% of non-Serb minority respondents
- The opinion poll showed a very high satisfaction rate with the work of the SRSG, an increasing trend of satisfaction with the work of UNMIK.
- The overall budget revenue collected in Kosovo during the period of January – May 2005 was 5% higher than during the same period last year.
- The trend of the opinion “relations are tense and will continue to be tense” marked a decrease by all respondents: for Albanian respondents from 32% in July 2004 to 14% in June 2005, whereas for Serb respondents from 84% in November 2004 to 76% in June 2005.
- The readiness of Albanian respondents to agree with the returns process is increasing.
- Very few respondents consider that the security situation has worsened, whilst more than half of the Albanian respondents and those of non-Serb minorities consider that the security situation has improved.

### **Recommendations**

- The decentralization process needs to be implemented at a quicker pace while preventing any kind of ethnic division that could later result in provoking more inter-ethnic tension.
- Increasing the budget through lowering fiscal evasions on the border, as well as the increase of tax collection in the country will be of particular importance.
- In order to encourage Kosovo Serbs to return and to create a more relaxing climate for better inter-ethnic relations, it is important that the international community continue pressuring Belgrade and Pristina in supporting efforts for returns.
- The PISG should intensively engage in eliminating circumstances that are conducive to spreading corruption. This should include capacity building within the KPS for an uncompromising fight against corruption.



## *The Challenges of the Security Sector*

### **Security Sector**

1. Besides the issue of status, the future of Kosovo's security sector is one of the most sensitive issues that will be faced in the forthcoming period.

The current security sector in Kosovo was built after the conflict in 1999. After the withdrawal of the Yugoslav military and police forces from Kosovo,<sup>1</sup> the vacuum which was left in its wake was initially compensated with the presence of KFOR troops, and later also with that of the UNMIK Police.<sup>2</sup> Gradually, the Kosovo Police Service (KPS) was formed under the auspices and the training of the OSCE, which founded the KPS School in the town of Vushtri/ Vucitrn in Kosovo. Since 1990 some 7,000 new police officers have graduated from this academy, while 900 have attended advanced training courses and have obtained ranks ranging from police sergeant to colonel.<sup>3</sup>

2. Since the arrival of KFOR in Kosovo, the security situation has marked continuous trends of improvement. An exception happened during the events of March 2004, after the drowning of three Albanian children in the village of Çabër/ Cabr in northern Kosovo. Massive unrest erupted throughout Kosovo with destructive effects on people, as well as property damage and desecration of religious premises.

3. Despite the achieved progress, the current security structure is characterized by several deficiencies:

- The March 2004 unrest showed that institutions responsible for public security in Kosovo (KFOR, UNMIK Police and the KPS) do not have a sufficiently coherent security structure and coordination for the successful management of crises;
- Considerable progress has been achieved in strengthening human resources and capabilities within the KPS. This is exemplified by the transfer of police stations from UNMIK Police to the KPS. Currently, only 2 of the 33 police stations remain to be transferred<sup>4</sup>. However, even with these achievements, the role of the KPS in investigation process is still modest;

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<sup>1</sup> Before 1989 the system of internal security and territorial defense in Kosovo had belonged to Kosovan institutions. After the forceful abolishment of autonomy in 1989, the Albanian majority population was eliminated from these structures, which were placed under Belgrades and the local Kosovo Serb populations control.

<sup>2</sup> UNSC Resolution 1244 (1999), Annex 2: "The international security presence with substantial North Atlantic Treaty Organization participation must be deployed under unified command and control and authorized to establish a safe environment for all people in Kosovo and to facilitate the safe return to their homes of all displaced persons and refugees".

<sup>3</sup> *Details*, OSCE, Edition 5, Nr.2, June 2005.

<sup>4</sup> From an interview with Colonel Sheremet Ahmeti, Commissioner of the KPS.

- Until recently, the domestic governing institutions - the Assembly and Government of Kosovo - had practically no authority in security matters and were not informed about them.<sup>5</sup> This changed in the beginning of July 2005, when UNMIK police and KPS reported to the Assembly.<sup>6</sup>
- Kosovo does not have its own intelligence service;
- Parts of Kosovo where there is a Serb majority population are still not fully controlled by UNMIK and the KPS.

4. Kosovan politicians have frequently appealed for the establishment of ministries, which would deal with security issues, and the further development of a domestic security sector. UNMIK has recently received the agreement of UN Headquarters to undertake the following:

- The review of the internal security sector in Kosovo and;
- The establishment of the Ministry of Interior and Ministry of Justice.

5. **Internal Security Sector Review (ISSR).** Based on the offer made by United Kingdom at the end of 2004, the SRSG has invited the Security Sector Development Advisory Team (SSDAT) to advise on the feasibility of a Kosovan-owned participatory ISSR review process, which would produce a precise and affordable Security Sector Development Plan for the future.<sup>7</sup> To this day, the SSDAT has made two visits to Kosovo, one in February and one in April of 2005, and has drafted a special scoping report concerning their assessment of the relevance and effectiveness of an ISSR concept in Kosovo.<sup>8</sup>

6. This report presents the details of a process intended to develop an internal security sector that would be efficient, affordable, and accountable. The report recommends that a Steering Committee be created, which would be composed of representatives from UNMIK, the PISG, and all communities of Kosovo, and lead the entire process of shaping the security sector. The report also recommends the creation of an ISSR Secretariat, which would be an organ of the Steering Committee that would function within the framework of the Office for Public Safety.<sup>9</sup> The media have quoted the SRSG as having said that the three main objectives of the ISSR are that it will be conducted by Kosovans for Kosovans, that it should facilitate the development of security policies in Kosovo, and that it would offer a long-term development plan for this sector.<sup>10</sup>

It should be emphasized that the ISSR will start by building a consensus on the security context for Kosovo. Whatever the outcome of future status talks, Kosovo

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<sup>5</sup> They were not even informed during the violent unrest of March 2004.

<sup>6</sup> The first report of the Assembly of Kosovo about the security situation has been made in the Assembly session of July 20, 2005. The report of the UNMIK police chief, commissioner Kai Vittrup, was not received well by a number of assembly deputies. "He said practically nothing" was the comment of Deputy Sabri Hamiti, referring to the report; *Koha Ditore*, July 25, 2005.

<sup>7</sup> In a press conference held on June 15, 2005, SSDAT member, Rod Evans, stated: "SSDAT's task is to address security sector reform issues around the world, advising often transitional and developing countries on their security sector reform issues and needs. The internal security sector review process is one that has been used in a number of developing countries, particularly those emerging from conflict, ..., to adopt an inclusive and participative approach to solving long term underlying security sector problems and addressing individual issues of personal safety and freedom and access to justice for all citizens"; *UNMIK Press Briefing*, [www.unmikonline.org](http://www.unmikonline.org), 16 June 2005.

<sup>8</sup> Kosovo Internal Security Sector Review Concept: Scoping Study, SSDAT, May 2005, D/SSDAT/20/1/1/1. Available on UNDP website at <http://www.ks.undp.org/Projects/SRL/srl.asp>.

<sup>9</sup> The Office for Public Safety already exists within the Office of the Prime Minister.

<sup>10</sup> *Koha Ditore*, July 5, 2005.

will still require a functioning, effective, affordable security sector serving all sections of the community, and the ISSR is expected to provide options for the development of that future security sector within a process that is strengthened by Kosovan participation and consensus.

**7. The transfer of competencies in the area of police and justice.** At the end of June 2005, the Legal Office of the UN Headquarters in New York gave the authorization for the transfer of competences in the area of public security (police) and justice to Kosovo institutions. On the occasion of informing Prime Minister Bajram Kosumi about this decision, the SRSG had said: "We already have an agreement from New York and we have been given the right to start the transfer of competencies from UNMIK to the PISG in the area of police and justice. We will try to do this as fast as possible".<sup>11</sup> The final institutional arrangements will be subject to validation by the ISSR process.

**8.** According to the media in Kosovo, if the coordination between UNMIK and the PISG is sufficient and well organized, the establishment of the Ministries of Interior and the Ministry of Justice should be undertaken during the latter half of 2005.<sup>12</sup> It should be emphasized that in an opinion poll carried out before the authorization was given to establish these ministries, an overwhelming part of Albanian respondents (85%) stated that the Ministry of Interior should be created without any conditions – see Table 1.1.<sup>13</sup> A rather large percentage of non-Serb minorities (61%) have supported the same outcome, while 97% of the Serb respondents have stated that it is still too early for the establishment of such a ministry. Opinion poll respondents have also expressed themselves similarly on the issue of the establishment of the Ministry of Justice (See tables A1.2 and A1.3 in the Annex).

**Table 1.1. Opinions of respondents on the creation of the Ministry of Interior, not including "don't know" and "does not answer" responses (%)**

	Albanians	Serbs	Others
It is still early for creation of this Ministry; UNMIK should hold reserved competencies in the security sphere for some time though	3.0	97.1	16.7
This Ministry has to be created, under condition of being monitored by UNMIK	12.1	1.4	22.7
Creation of this Ministry is necessary, without any conditions	84.9	1.4	60.6
Total	100.0	100.0	100.0

Source: Riinvest's opinion poll – June 2005

## Security challenges

**9.** The security sector, whether the existing one or the one that is to be created, may be challenged by a number of factors. These are as follows:

- Diametrically opposed expectations of the Albanians and Serbs as related to the future status of Kosovo;
- The alleged existence of secret services and intelligence services;
- The alleged existence of a parallel security structures; and
- Financial difficulties.

<sup>11</sup> *All daylies*, July 2, 2005.

<sup>12</sup> *Koha Ditore*, July 2, 2005.

<sup>13</sup> The full results of the opinion poll related to this issue are given in Table A1.1 in the Annex.

**10. Different claims about the future status of Kosovo.** International and domestic political personalities and analysts have made frequent statements warning of the potentially volatile political and security situation in Kosovo and the region once final status talks begin.<sup>14</sup> These warnings are prevalent because of the stark contrast between the political opinions between Pristina and Belgrade about the final status of Kosovo. Especially, since the status talks are expected to commence within the coming year.

**11.** These circumstances represent a serious threat to the security situation, as disagreements with the result of talks may be utilized by extremists to mobilize masses.<sup>15</sup> In this sense, the Foreign Minister of Serbia-Montenegro Vuk Draskovic made a revealing statement and said that “an independent Kosovo could only arise by force and against the will of Serbia”.<sup>16</sup> Mr. Adem Demaçi made a suggestive statement warning that possible unrest of a larger extent than in March 2004 could occur if Kosovo Albanian aspirations are not met.<sup>17</sup>

**12. The alleged existing of political party secret services.** In the last period numerous and serious accusations have been raised about party-affiliated secret services. These accusations were initially voiced through the media and later in Kosovo Assembly sessions. Reciprocal accusations were made by two largest political parties - the LDK and the PDK. The parties alleged the existence of political party affiliated secret services operating as illegal mechanisms under the patronage of these parties.<sup>18</sup> Consequently, the relations between the Government and the opposition have deteriorated in the past few months. This presents a severe threat to political and institutional stability at a time when the assessment of standards implementation is to be carried out, and on whose positive outcome depends the beginning of status talks.

Despite speculations about the number of intelligence and secret services that operate in Kosovo,<sup>19</sup> authorities have neither confirmed nor denied their existence. The public is hardly aware of the existence of illegal intelligence services. In an opinion poll performed in June 2005, approximately 40% of Albanians, 72% of Serbs, and 48% of non-Serb minorities have answered that they “do not know” or have not responded at all to the question about the existence of political party affiliated intelligence services. Only 1.8% of Albanian respondents and 1.3% of non-Serb minority respondents have said that they are fully aware of their existence – see Table 1.2.

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<sup>14</sup> Ramadan Qehaja: “All the security dangers in Kosovo in the status time”, *Zeri*, June 30, 2005.

<sup>15</sup> This opinion has also been elaborated by the British newspaper, *The Independent*, in which they wrote that an additional 1,000 British troops will be dispatched to Kosovo in autumn of 2005, at the time when Kosovo’s status talks are expected to commence. *Koha Ditore*, June 27, 2005. In a way this has been denied by the KFOR official for information Charles de Kersabiec who was quoted as stating that the current 17,000 KFOR troops stationed in Kosovo were sufficient enough to keep the situation under control, *Zeri*, June 20, 2005.

<sup>16</sup> *Beta*, June 23, 2005.

<sup>17</sup> “... the only way to prevent another bloodshed is for Kosovo to gain its Independence.” *Blic*, June 14, 2005; [www.blic.co.yu/arhiva/2005-07-14/E-Index.htm](http://www.blic.co.yu/arhiva/2005-07-14/E-Index.htm).

<sup>18</sup> The PDK accuses the LDK of having its own secret intelligence service called the SIA (Sigurimi i Atdheut – Homeland Security), while the LDK counter-accuses the PDK of having its own intelligence service called SHIK (Shërbimi Informativ i Kosovës – Kosovo Intelligence Service).

<sup>19</sup> In a meeting with regional journalists Nexhat Daci, President of the Parliament of Kosovo, had mentioned the existence of some 30 intelligence services in Kosovo, none of which, according to him, are domestic services, *QIK*, June 30, 2005.

**Table 1.2. Respondents' knowledge about the existence of politically-affiliated intelligence services (%)**

	Albanians	Serbs	Others
I am fully informed about their existence	1.8	0.0	1.3
I heard that they were active after the conflict, but I don't know whether they are active now	4.2	1.0	8.1
I heard, but I don't know nothing specific about them	32.5	3.1	14.1
I did not hear about them at all	21.6	24.0	28.2
Don't know	38.0	47.4	45.0
Does not answer	1.8	24.5	3.4
Total	100.0	100.0	100.0

Source: Riinvest's opinion poll – June 2005

**Table 1.3. Opinions on the necessity for the existence of intelligence services of political parties (%)**

	Albanians	Serbs	Others
Pending the creation of the Ministry of Interior, the existence and activity of the intelligence services of political parties is reasonable	5.2	0.0	2.7
Intelligence services of political parties were necessary and useful during the first years after the conflict, but now they should merge into KPS services	11.9	0.0	0.7
Intelligence services of political parties are illegal and have to be halted	20.6	25.5	24.2
Don't know	57.2	51.5	65.8
Does not answer	5.1	23.0	6.7
Total	100.0	100.0	100.0

Source: Riinvest's opinion poll – June 2005

**13.** A small percentage of respondents of the opinion poll carried out in June 2005 are in favor of the continued existence of the party-affiliated intelligence services until the establishment of the Ministry of Interior – see Table 1.3. Only 5.2% of Albanian respondents and 2.7% of non-Serb minority respondents are in favor of this option. A large percentage of respondents have stated that these intelligence services are illegal and should be dissolved.

**14.** Another issue that could be a challenge to the establishment of a security sector for Kosovo is the existence of parallel security structures from Serbia in Kosovo, especially in the northern part<sup>20</sup>. Considering current difficulties in this area, it should be expected that the implementation of a uniquely Kosovan security structure will encounter substantial resistance in areas where there is a majority Serbian population.

**15. Limited financial resources.** Substantial financial resources are needed for the creation of the Ministry of Interior and the Ministry of Justice. Considering the modest potential of the Kosovo Consolidated Budget (KCB) to fulfill its requirements,<sup>21</sup> it should be expected that financial limitations might pose a problem in this regard. Therefore, the formation of the security sector of Kosovo needs to adhere to rational spending strategies and consider the limitations of the

<sup>20</sup> See Early Warning Report #6, January-April 2004.

<sup>21</sup> As has been reported in the EWR #.9, considerable financial resources are needed for the fulfillment of the decentralization process and they are to be provided for from the consolidated budget of Kosovo.

KCB. The SSDAT has anticipated that international donor support will be needed for the further development of the security sector.

## *Political and Institutional Stability*

### **Political situation**

**16.** Political activities in the April-May 2005 period have focused on laying the groundwork in preparation for the beginning of talks on the final status of Kosovo. The U.S Deputy Secretary of State, Nicholas Burns, has said “this year we’ll have to finish the job in Kosovo”.<sup>22</sup> Many other international diplomats have voiced the same opinion in regards to the resolution of Kosovo’s final status. Other developments that have characterized this period were:

- Difficulties in forming the Political Forum of Kosovo;
- The continued non-participation of Kosovo Serbs in the sessions of the Kosovo Assembly;
- Formation of the Cabinet on Good Governance of the PDK;
- Mutual accusations of the two largest Kosovo Albanian parties;
- Difficulties related to the decentralization process.

In addition to these developments, two important processes for the future of Kosovo have occurred:

- The beginning of the transfer of reserved competencies of the SRSG in the area of security and the judiciary to the domestic structures;
- The final and comprehensive assessment of the implementation of “Standards for Kosovo” whose positive outcome is a prerequisite for the beginning of the Kosovo final status talks.

**17.** In general, this period has continued to be characterized by political and institutional stabilization, which has been the trend since the violent unrest in March 2004. There have been no major inter-ethnic incidents and tensions. Despite the fact that some extremist forces have tried to provoke unrest in places such as the bridge dividing the town of Mitrovica and have attacked returned Kosovo Serbs in Klina, the incidents were less sensationalized than they had previously been.<sup>23</sup>

**18.** In an address to the UN Security Council, Secretary General of the UN, Mr. Kofi Annan, and the SRSG, Mr. Søren Jesssen-Petersen, have emphasized the overall progress and increasingly stable situation that has occurred in Kosovo in the past months.<sup>24</sup>

The improvement of the situation has also been reflected in the opinions of respondents in an opinion poll carried out in the second half of June 2005. As can

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<sup>22</sup> Statement of the US Deputy Secretary of State Nicholas Burns, *Koha Ditore*, May 19, 2005.

<sup>23</sup> “The Tale about freedom of Movement” – describes the incident which occurred when the Mitrovica bridge was opened for pedestrian use, *Express*, June 14, 2005; “Stones Return to Mitrovica”, *Express*, June 20, 2005; “Bombs for the Returnees” – describes the attack on Serb returnees in Klina, *Express*, June 18, 2005.

<sup>24</sup> In the meeting of the UN Security Council on May 27, 2005, Mr. Kofi Annan has stated: “Progress in Kosovo remains on track, in most priority areas, despite continued uncertainty, a change of Government and that Kosovo Serbs continue to shun participation in the provisional institutions”.

be seen from Table A2.2 in the Annex, the pessimism in the political situation of the respondents has continued to decrease since the events in March 2004. Now, 'dissatisfied' or 'very dissatisfied' respondents are composed of 32% of Albanian respondents, 97% of Serb respondents and 27% of non-Serb minority respondents. In addition, the opinion poll shows a very high satisfaction rate with the work of the SRSG, an increasing trend of satisfaction with the work of UNMIK and a decreasing trend of satisfaction with the work of domestic institutions (Kosovo's Assembly and the Government) – see Figure 2.1. It should be emphasized that the drop in the satisfaction rate with the performance of domestic institutions is in comparison to the period when Mr. Ramush Haradinaj headed the government. This satisfaction rate is still higher than the satisfaction rate with the work of

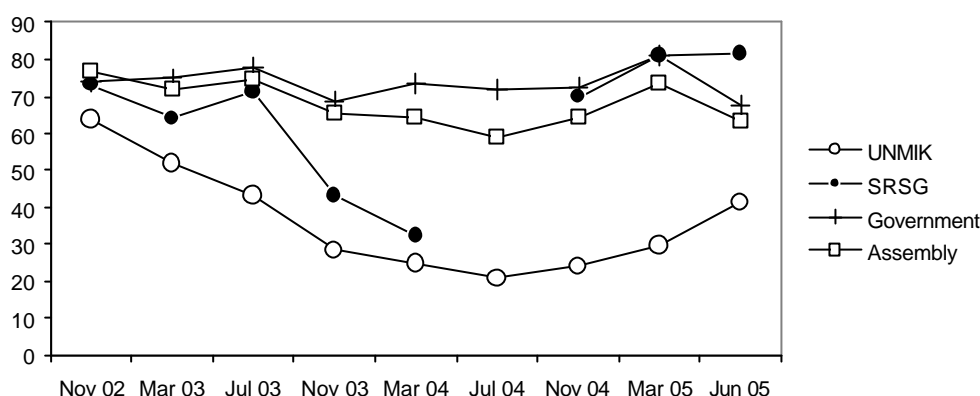


Fig. 2.1. Satisfaction of respondents with the performance of various institutions – “satisfied” or “very satisfied” respondents (%)

UNMIK.

The opinion poll also indicates that the respondents' readiness in engaging in protests because of the political situation is lower than in March 2005, although it is still significantly high – see Table A2.3 in the Annex. Approximately 52% of Albanian respondents, 87% of Serb respondents and 64% of the non-Serb minority respondents have indicated that they are ready to protest.

### The status of Kosovo – convergences and divergences

**19.** Since the appointment of Norwegian diplomat, Mr. Kai Aide, as the Special Envoy of the Secretary General for standards assessment, speculation about the final status of Kosovo has been widespread. Various options have been suggested, with many substantial differences. These speculations have created confusion and nervousness within Kosovan society. This may be the reason why the respondents of almost all ethnicities see the issue of Kosovo's unresolved status among the greatest problems facing Kosovo – see Table A2.1 in the Annex. When asked to rank the greatest problems facing Kosovo, Albanian respondents ranked Kosovo's unresolved status in the first place, Serbs ranked it in the fourth, while non-Serb minorities ranked this issue in the third place.

**20.** The Albanians, who comprise the majority in Kosovo, see almost no other option except the independence of Kosovo as a final solution to the status issue. According to a poll carried out in June 2005 for the purposes of this report, about 93% of Albanian respondents and 87% of non-Serb minority respondents have declared themselves in favor of the independence of Kosovo, while 6% of Albanian



respondents are in favor of unification with Albania – see Table 2.1. Serbs who live in Kosovo, as well as the government in Belgrade, are against this option and favor Kosovo as an autonomous province within Serbia. Both parties hope that international options on status would be inclined to their favor. However, the internationals refer frequently to possible compromises, without elaborating on their nature and scope, which is likely to have the function of preparing political leaders as well as the public in Kosovo and Serbia for the dialogue phase, when all the options would be discussed and a realistic solution would be sought.<sup>25</sup>

**Table 2.1. Opinions on the best solution for the future final status of Kosovo (%)**

	Albanians	Serbs	Others
Independence of Kosovo in the present borders	92.7	0.0	86.7
Partition of Kosovo	0.3	7.2	1.6
Unification with Albania	6.0	0.0	1.6
Confederate state within Serbia, such as Montenegro	0.2	0.0	2.3
Autonomous province within Serbia	0.0	92.8	2.3
Total	100.0	100.0	100.0

**21.** An opinion is being formed within international community that Kosovo cannot return to the status prior to 1999.<sup>26</sup> The majority of international think tanks proposals underline that Kosovo should be an independent state, but many have different opinions on how this should be achieved. Some propose that independence should be achieved in phases,<sup>27</sup> or that there should be conditional independence.<sup>28</sup> Others have proposed that Kosovo could have official independence but with a limited sovereignty.<sup>29,30</sup> Yet, some suggest that the EU should devise something entirely new for Kosovo and the Balkan region.<sup>31</sup> Lastly, some suggest that Kosovo should be granted unconditional independence.<sup>32</sup>

Opposition to these proposals has been voiced by the Serbian government who warns that there are potential consequences in the recognition of Kosovo's independence, in the sense that independence would cause new dangers for the region and would provoke new conflicts.<sup>33</sup>

<sup>25</sup> For example, the US diplomat Nicholas Burns has openly expressed such sentiments in his statements in Pristina and this has also been reflected in: "Time for Compromise"; *Express*, June 9, 2005.

<sup>26</sup> "The Status of Kosovo should strengthen the Security and Stability of the Region", the EU Summit in Brussels on June 17, *Koha Ditore*, June 17, 2005.

<sup>27</sup> Daniel Serwer of the US Institute for Peace: "Independence of Kosovo should be in phases", *Koha Ditore*, May 20, 2005.

<sup>28</sup> Tim Judah, "Kosovo should have conditional independence", *Koha Ditore*, June 5, 2005

<sup>29</sup> Wolfgang Petritsch: "Formal independence with limited sovereignty for Kosovo", *Koha Ditore*, May 25, 2005.

<sup>30</sup> Denniss McShane: "Kosovo will be a small state" – just before the EU Summit in Brussels, *Koha Ditore*, May 16, 2005.

<sup>31</sup> Jacques Rupnik: "For the Balkans the EU should devise something new", *Koha Ditore*, July 6, 2005.

<sup>32</sup> "Switzerland pro-independence for Kosovo", statement of the foreign ministry of Switzerland, *Koha Ditore*, May 29, 2005.

<sup>33</sup> Serbia's foreign minister Vuk Draskovic: "Kosovo could become independent only by force", *Koha Ditore*, June 6, 2005.

**22.** However, the exaggerated headline quoting in newspapers of international declarations in favor of independence, or conditional independence, in Kosovo has had the effect of generating some self-satisfaction of an immobilizing form that could, as a consequence, result in a delay in the fulfillment and implementation of standards.<sup>34</sup> This can be observed especially in the attitude of political leaders who always insist on the “formal recognition of the independence for Kosovo” by the international community, considering this almost as the guaranteed option.

The attitudes and activities of the government are opposed more openly by some small political groups that have more extreme views. Most active among them is the Kosovo Action Network (KAN) organization that has been spray-painting the words “No Negotiations - Self-Determination” throughout Kosovo.<sup>35</sup> They are in favor of holding a referendum for independence and against negotiations with Serbia. This group maintains that self-determination is an inherent right that belongs to the Kosovo population, while negotiations would lead towards some sort of compromise placing Kosovo in a federal or confederate state union with Serbia and Montenegro. The KAN believes that this would not only be unjust but could in fact trigger another liberation war in Kosovo.<sup>36</sup>

### Relations with Belgrade

**23. Dialogue.** A certain thawing of relations between Pristina and Belgrade has been observed during this period as a result of discussions that have been resumed on the so-called ‘technical issues’ such as missing persons, energy and transport issues, which had been stopped by Belgrade and Kosovan Serbs after the March 2004 unrest.

**24.** Other initiatives for talks at the highest level have also occurred. However, these have been considered as initiatives to keep up appearances, which some in the media have called ‘Balkan ping-pong’. The political leaders of Serbia and Kosovo have dispatched formal invitations to each other for meetings that would initiate discussion, but in reality it seems that it is expected that the invitation be turned down, with each side insisting on meeting at places and times that were believed to be problematic for the other side.<sup>37</sup>

**25. Influence on Kosovo Serbs.** After the March 2004 unrest, Belgrade influenced Kosovo Serbs to boycott Kosovan institutions. Kosovo Serbs conditioned their cooperation with Kosovo institutions by demanding the implementation of decentralization, conceptualized in such a way that it created a new administrative division of Kosovo along ethnic lines.<sup>38</sup>

**26.** The boycott of Kosovo institutions by Kosovo Serbs has continued with negative consequences for the functioning of institutions as well as for the implementation of the “Standards for Kosovo”. The boycott influenced decision-

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<sup>34</sup> According to media reports in Kosovo on July 21, 2005, the High Commissioner of the EU, Javier Solana during his visit to Kosovo on July 20, 2005 has expressed his concern about the delay in the implementation of decentralization and the ‘Standards for Kosovo’.

<sup>35</sup> *Koha Ditore*, July 15, 2005; *Express*, July 16, 2005; <http://www.kan-ks.org>.

<sup>36</sup> The speech of Albin Kurti in the Round Table “Status vs. Status Quo”, Pristina, July 11, 2005, organized by Forum 2015.

<sup>37</sup> “The Balkan-Ping-Pong: Pristina politicians are playing a role – an amateur one”, article by E. Robelli in *Koha Ditore*, May 18, 2005; “Kostunica invites Kosumi to Meeting in Prizren”, *Koha Ditore*, May 16, 2005; “Rugova ready to meet Tadic in Geneva”, *Koha Ditore*, May 19, 2005; “Kosumi does not accept neither Prizren nor May 25”, *Koha Ditore*, May 18, 2005.

<sup>38</sup> “The Plan for the Political Solution of the Issue of Kosovo”, approved by the Parliament of Serbia on April 29, 2004; [www.b92.net](http://www.b92.net), April 29, 2004.

makers to accuse Belgrade of manipulating Kosovo Serbs and impeding the implementation of the "Standards for Kosovo". In a response to the accusations of Belgrade representative, Nebojsa Covic, in the UN Security Council meeting on Kosovo, the SRSG Søren Jessen-Petersen retorted that the paternalistic policies of Belgrade and its influence on Kosovan Serbs in boycotting Kosovan institutions contributed to the problems affecting Kosovo Serbs.<sup>39</sup>

The lack of cooperation of Kosovo Serbs within the Kosovo institutions has had a negative impact on the delay in the implementation of the "Standards for Kosovo". This is especially true in relation to the return of displaced Serbs, in which the cooperation of the Serbian side is necessary.

**27. Attitude towards the issue of the status of Kosovo.** The desire for compromise, by some western diplomats and members of the Contact Group, in relation to the future status of Kosovo, has been redefined by Belgrade policy-makers into a policy of "more than autonomy, less than independence".

Analysts in Kosovo have perceived this proposal as a new dogma of Serbian policy toward Kosovo, which attempts to further maintain the formal sovereignty over Kosovo by allowing only for internal self-determination ("more than autonomy"), but not external self-determination ("less than independence").<sup>40</sup>

**28.** A group of former high-ranking Serbian officials, politicians and intellectuals have articulated a different policy towards Kosovo.<sup>41</sup> They have stated that Serbia cannot re-establish its control over Kosovo. Their belief, which they shared at a conference held in Pristina, is that Serbia should not prevent the self-determination of Kosovo, but that it should actively engage in the democratization of Kosovo, with priority emphasis on securing the rights of the Serb minority.<sup>42</sup>

It should be emphasized that the latter perceptions of Kosovo's final status are rather isolated. They have been strongly opposed by Belgrade, which continues to adhere to the formula "more than autonomy, less than independence".

### **Accusations between the Government and the opposition continue**

**29.** The Kosovo ruling coalition and the opposition continue to disagree on many issues and to mutually accuse each other. This has created considerable tension and has impeded the fulfillment and implementation of "Standards for Kosovo".

**30. Decentralization.** Decentralization is an issue on which many people are still divided on in Kosovo. The differences are of a conceptual nature and have to do with the character and proportions of decentralization. The differences in opinion are apparent and have also been noticed in the parliamentary debate on decentralization in the session of the Assembly of Kosovo held on May 19, 2005. The current concept of decentralization is criticized both by the PDK as well as ORA, and it is being contested as an unconstitutional initiative that will lead the ethnic partitioning of Kosovo. However, the deputies of the LDK and AAK that

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<sup>39</sup> *Koha Ditore*, May 26, 2005.

<sup>40</sup> "New Belgrade prayer for Kosovo", *Express*, May 17, 2005.

<sup>41</sup> Some of these officials are: Cedo Jovanovic and Zarko Korac, deputy prime ministers in the government of Zoran Djindjic, Natasa Micic, ex-president of the Parliament of Serbia and ex-acting president of Serbia, Goran Svilanovic, ex-foreign minister of the Union of Serbia and Montenegro.

<sup>42</sup> The conference was organized by the Helsinki Committee of Serbia, with the facilitation of the Center for Humanistic Studies "Gani Bobi" in Pristina; *Express*, June 14 and 15, 2005; *Koha Ditore*, June 14 and 15, 2005.

form the ruling coalition have expressed their position against decentralization, particularly “before the full transfer of authorizations to Kosovo institutions”.<sup>43</sup>

Although the Government is determined to implement the process of decentralization irrespective of the opposition’s objections, decentralization faces some problems of an operative nature, such as the issue of municipal borders. It is likely that the Government will be criticized in the future about decentralization by the opposition, as a form of political struggle with the governing coalition.

**31. Accusations of Organized Crime.** Another hindrance for efficient government work could have been caused by the escalation of internal tensions after the campaigns of denouncement and police raids. In addition, investigations regarding the alleged activities of the political party affiliated secret services, and suspicions that they have been one of the main participants in activities related to organized crime have prevented the government from operating smoothly.<sup>44</sup> The Deputy Prime Minister and some other government ministers have been accused of heading, or of being linked, to such party-affiliated secret services. A document that contains 300 pages on the alleged activities of the SIA (Sigurimi i Atdheut – Homeland Security), whose data has been allegedly gathered by citizens and was prepared by the PDK, has been handed over to UNMIK for further investigation.

In addition to these accusations, which were denied by the accused ministers, most of the government ministries have been denounced by the main opposition parties for a lack of competence. The criticism is being voiced mainly by the members of the “Cabinet of Good Governance”, known also as the Shadow Cabinet, of the PDK.<sup>45</sup> The accusations being made are continuous and find outlets in the media and in sessions of the Kosovo Assembly. This has caused considerable tension between the ruling coalition and the opposition.

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<sup>43</sup> Member of Kosovo Parliament Sabri Hamiti, LDK, *Koha Ditore*, May 20, 2005.

<sup>44</sup> “30 Pages accuse 300 persons”; *Express*, April 4, 2005; “Is this true – publications of fragments of the PDK document handed over to UNMIK”, *Express*, April 5, 2005; “Partnership – documents that prove functioning of clandestine and secret organizations”; *Express*, April 15, 2005.

<sup>45</sup> The opinion poll carried out in June 2005 for the purposes of this report indicates that the opinion of Albanian and non-Serb minority respondents is mainly positive when considering the possible effects of this Cabinet in the achievement of joint attitudes of the Albanian political factor in many essential issues – see Table A2.4 in the Annex.

## *Economic and Social Stability*

### General economic situation

**32.** The general economic situation continues to be impacted by the decrease in the GDP growth<sup>46</sup> and lack of significant changes in macroeconomic trends. Nevertheless, during the second quarter of this year some activities and processes were undertaken which could have positive effects on the economy. Some of these positive developments are as follows:

- The acceleration of the privatization process;
- Increase in the collection of the budget revenues at the central level;
- Embarking in the process of drafting a development plan/ strategy for Kosovo;
- The Free Trade Agreement with Macedonia is expected to be signed shortly and negotiations for a trade agreement with Bosnia and Herzegovina are ongoing;
- Activities toward the incorporation of public enterprises have started;
- The growth in time deposits as well as the fall in food imports.

On the other hand, certain negative effects were also noted, such as:

- Ongoing deflation and negative GDP growth (-0.5%);<sup>47</sup>
- The high level of dissatisfaction with the economic situation;
- The slower growth of exports in comparison with imports;
- The low level of tax collection at municipal level.

**33.** The level of dissatisfaction among citizens on the economic situation continues to be high, remaining almost on the same level since July 2004. According to the survey carried out in June 2005, around 70% of the respondents felt “dissatisfied” or “very dissatisfied” with the current economic situation (69% of Albanians, 92% of Serbs, and 60% of non-Serb minorities) – see Table 3.1.

**Table 3.1. Percentages of respondents “dissatisfied” or “very dissatisfied” with the current economic situation (%)**

	Jul-04	Nov-04	Mar-05	Jun-05
Albanians	69.0	65.4	70.3	69.1
Serbs	95.5	93.1	95.1	92.3
Others	71.4	75.2	58.2	60.0
Total (%)	70.7	67.7	71.1	69.9

*Source: Riinvest's opinion polls – July 2004 to June 2005*

**34.** Only around 31% of Albanian respondents, 7% of Serbian respondents and 27% of non-Serb minority respondents are “satisfied” or “very satisfied” with the economic condition in their households – see Table A3.1 in the Annex.

<sup>46</sup> IMF Mission Report, April 20 - May 4, 2005.

<sup>47</sup> Ibid.

Expectations regarding the improvement of business conditions remain low: Only 19.9% of Albanian respondents, none of Serb respondents, and 18.9% of non-Serb minority respondents expect business conditions to be more favorable six months from now (Table A3.2 in the Annex). Respondents' readiness to join protests due to the current economic situation remains almost at the same level as three months ago. Around 63% of Albanian respondents, 79% of Serb respondents and 56% of non-Serb minority respondents have shown a readiness to participate in protests due to the economic situation (Table A3.3 in the annex).

**35.** In the absence of reliable data, an accurate estimate of the GDP trend in Kosovo cannot be made. In the last IMF mission report, <sup>48</sup> the GDP in Kosovo for 2004 was evaluated at € 2,516 million, or 20% higher than the estimate calculated in December (€ 2,017 million).<sup>49</sup> The IMF also estimates that the GDP in 2005 will fall by -0.5%.<sup>50</sup> The absence of accurate statistical data makes it difficult to analyze macroeconomic indicators, as well as assessing the economic policies enforced by policy makers.

### **Budget revenues and budget consumption challenges**

**36.** The overall budget revenue collected in Kosovo during the period of January – May 2005 was 5% higher than during the same period last year.<sup>51</sup> Tax collection was approximately 3% higher than predicted.<sup>52</sup> The overall tax revenue collected in the municipalities during the first five months of this year<sup>53</sup> represents only 20.9% of the projected income (13% lower than the income collected last year).<sup>54</sup>

Budget expenses during the January-May 2005 period are 34.4% of the total annual expenses for 2005. They are 2% lower than during the same period in 2004.

**37.** The collection of the budgetary revenues in Kosovo has marked a considerable improvement since 2000. Collection has increased from 249 million Euros or 23.4% of the GDP in 2000, to 616 million Euros or 32.5% of the GDP, in 2004.<sup>55</sup>

The high level of the budget expenses, based mainly on the budgetary surplus accumulated in previous years, and the current decrease in the GDP growth have suggested the need for a revision of budgetary expenses in 2005, in addition to more reasonable spending behavior. This is necessary in order to prevent a high budget deficit, which would make the budget unsustainable in the long-term.<sup>56</sup>

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<sup>48</sup> IMF Mission Report, 20 April - 4 May, 2005.

<sup>49</sup> IMF Mission Report, 8-18 December, 2004.

<sup>50</sup> IMF Mission Report, 20 April - 4 May, 2005.

<sup>51</sup> Kosovo Monthly Economic Briefing, World Bank, June 30, 2005.

<sup>52</sup> When interpreting this data, it has to be taken into consideration that during March 2005 a significant increase in the import of vehicles occurred before the law on the special tax fee was changed and the import restriction law of not allowing vehicles older than eight years to be imported into Kosovo was implemented. During the first quarter of 2005, the number of imported vehicles was greater than their whole import during 2004. Therefore, the rise in border tax collection is attributed to this fact as well. See: Magdalena Tomczynska, Bearing Point, Kosovo Economic Development Initiative, 11 April 2005.

<sup>53</sup> This income accounted for 7.3 million Euros; MEF data, June 2005.

<sup>54</sup> Projected income amounted to 34.8 million Euros; Kosovo Monthly Economic Briefing, World Bank, June 30, 2005.

<sup>55</sup> World Bank's Report No. 32624-XK, Review of the Public and Institutions Expenses in Kosovo, 22 June 2005.

<sup>56</sup> IMF Report, December, 2004.

**38.** Share of salaries in budget expenditure during the January-May 2005 period have marked an increase of 6% compared with the same period in 2004, but they are 5.7% lower than planned. These made up 39.3% of the planned expenditure for the year 2005. During this period, a decline of approximately 20% was observed on the expenditure for goods and services, which amount to 36.7% of foreseen expenditure, thus showing a sufficient control in spending – see Table 3.2. It must be emphasized that trends regarding expenditure are characterized by instability each month.

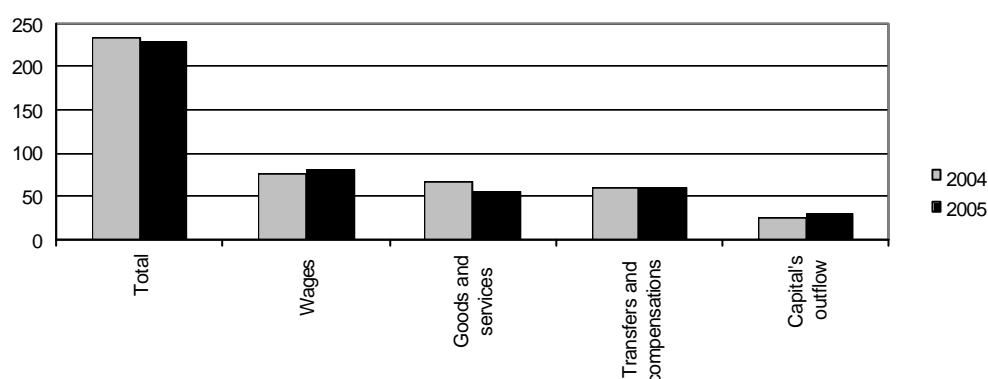
**Table 3.2. Budget consumption during the January – May 2005 period (million Euros)**

	Projections for the year 2005	Expenditure January-May 2005	Expenditure/ Projections (%)
Total	746.6	256.7	34.4
Wages	203.7	80.0	39.3
Goods and services	145.4	53.6	36.9

Sources: IMF Mission Report, 20 April - 4 May, 2005; MEF data, June 2005.

Capital expenditure during this period was almost the same as last year (see Fig 3.1). However, it is expected that it will increase significantly during the second half of this year, due to a few new projects that will go through the public procurement process in the coming period. On the other hand, expenditure increases for social transfers (around 37%) have been balanced by the fall of expenses for public enterprise subsidies, so that in general these expenditures are on the same level as they were last year.

**39.** Demands for the increase of budgetary revenue will be raised in the near future for financing the Ministry of the Interior and the Ministry of Justice, which are expected to be established. Increasing the budget through lowering fiscal evasions on the border will be of particular importance, as well as the increase of tax collection out of custom points, as such collection is still insufficient, particularly in



**Fig. 3.1. Budget consumption during the January-May 2005 period compared to the same period of the year 2004 (million €); IMF Mission Report, 20 April - 4 May, 2005; MEF data, June 2005.**

regards to VAT and property tax.

In general, budget expenditure is still very high considering Kosovo's level of development compared with that of other countries in region and Europe. Around

32% of the budget is spent on wages and per diems, which is much higher than in neighboring countries.<sup>57</sup>

**40.** Another problem, which has raised concern is the quality of spending on goods and services, and investments. The media has highly criticized the scale of spending on luxury goods for purposes which are not linked with the work efficiency of Kosovo institutions (such as investments in numerous buildings, luxury cars, which are accused of being made without the required level of transparency).<sup>58</sup>

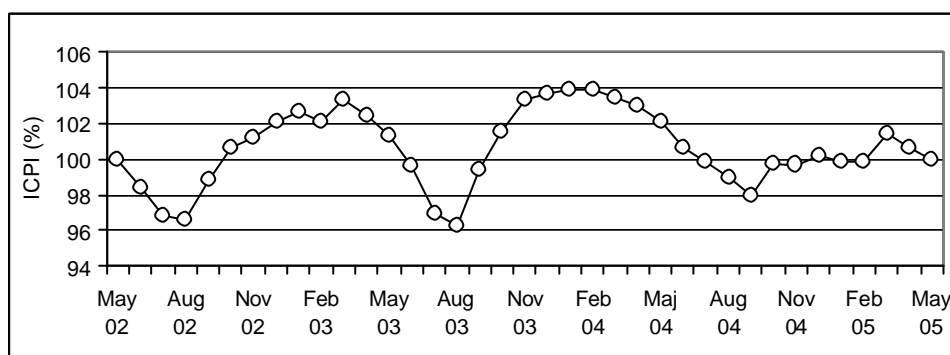
**41.** Based on past trends, the potential risk factors threatening the growth of the budget for the remainder of 2005 include:

- Very low performance of income collection within municipality levels;
- Low border incomes from imports, apart from vehicles, compared to projections.

According to the recommendations of the IMF, the solution to the budget deficit needs to be addressed by moderating the spending of budgetary agencies through a reduction of employees in the state administration or through a reduction of spending for goods and services. Keeping in mind the high unemployment trends and delicate social conditions, a decrease in spending for goods and services will probably be more readily accepted and would be more sustainable.

### The current trends

**42. The deflation trend continues.** According to the Statistical Office of Kosovo's (SOK) official data,<sup>59</sup> the consumer prices during April and May decreased by 0.7%, which is similar to the trend observed since December last year. In addition, in May 2005 the inflation measured as CPI changes has marked a 2.1%



**Fig. 3.2. Consumer Price Index (May 2002=100);**

Source: Statistical Office of Kosovo, May 2005

decrease in comparison to prices in May 2004 (see Fig. 3.2).

The decrease of consumer prices has characterized milk products, bread, cereal, coffee, tea, and cacao. However, vegetables particularly contributed to the decrease in consumer prices. This was a result of the increase in the supply of these seasonal products in Kosovo. A decrease in prices was observed with other products as well,

<sup>57</sup> In Albania wages take up 27% of the budget, in Bulgaria wages take up 12% of the budget, in Romania wages take up 16% of the budget, in Slovenia 25%, and in the European Union wages take up 22%.

<sup>58</sup> "Minister Tërmkolli bombarded with criticism"; *Koha Ditore*, 2 June 2005. "Buja: Tërmkolli must go home", *Epoka e Re*, 22 June 2005.

<sup>59</sup> Statistical Office of Kosovo, May 2005.



such as: clothes, gas, furniture and transport services. Yet, an increase in prices was noticed for fruits, sugar, marmalade, honey, chocolates and cookies; however, their impact on the overall price trend is negligible.

**43. The trade deficit is increasing.** During this period, trade was characterized with continuing imbalances in favor of imports. Imports during the January – April 2005 period, compared to the same period last year, were 11.7% higher and totaled 33.9 million Euros. At the same time export increased by 4.4%. Exports comprised only 4.37% of imports.<sup>60</sup>

The imports mainly come from the Balkan and EU countries. In 2005, the biggest proportion of imports came from Macedonia, Serbia and Montenegro, Turkey, and Bulgaria. It is worth noting that the import of agricultural goods decreased by 25%, and the import of alcohol, tobacco and packed food decreased by 15%. If this trend continues

it could indicate that a substitution of imports is being made for domestic products. During this reporting period, the import of machinery and electrical equipment increased by 17%, as well as of animals and meat by 24%.

**Table 3.3. Dynamics of exports and imports (million €)**

	January - April 2004	January - April 2005	Index 2005/2004
Exports	13,5	14,1	4.4%
Imports	288,8	322,7	11.7%
Trade balance	-275,3	-308,5	12%

Source: BPK, Monthly Statistical Bulletin, May 2005.

**Table 3.4. The import and export structure during the respective January-April periods of 2004 and 2005 (million €)**

	Imports			Exports		
	2004	2005	Index	2004	2005	Index
Agricultural goods	23.7	17.9	0.755	0.2	0.2	1.000
Minerals	48.6	49.4	1.016	0.2	1.2	6.000
Chemical industry goods	25.0	27.5	1.100	-	-	-
Plastic and rubber	9.4	12.4	1.319	0.9	0.3	0.333
Metals	18.6	22.2	1.194	5.9	6.6	1.119
Glass, ceramic and stone goods	12.1	10.3	0.851	0.4	0.2	0.500
Machinery and electrical equipment	29.3	34.3	1.171	0.5	0.8	1.600
Alcohol, tobacco and packed food	49.6	42.2	0.851	1.5	1.2	0.800
Textile	7.0	10.3	1.471	-	-	-
Animals and animal products	14.3	17.8	1.245	-	-	-
Leather	-	-	-	2.5	2.2	0.880
Others	51.2	78.4	1.514	1.4	1.4	1.000
Total	288.8	322.7	1.117	13.5	14.1	1.044

Source: BPK, Monthly Statistical Bulletin, May 2005.

**44.** Composition of export continues to be unfavorable, with a very high proportional of scrap metals (about 25%) contributing to exports. Besides scrap metals, Kosovo exports mostly raw metals, leather items, plastic, rubber and small quantities of agricultural goods. The export structure has not changed substantially: the export of metals and minerals products has increased by a small amount, while the export of plastics, rubber leather, alcohol and tobacco has marked a small decrease.

<sup>60</sup> During 2004 the exports comprised 5.31% of imports; BPK, Monthly Statistical Bulletin, May 2005.

The activities leading up to the signing of the free trade agreement were intensified. The free trade agreement with Macedonia is expected to be signed soon, and positive outcomes are expected starting this summer.

**45. Time deposits are increasing.** The trends regarding deposits and credits in Kosovo have continued to grow for this period as well. In May 2005, compared with the same period in 2004, deposits have increased by 27.4% and their total has come to 731 million Euros. Currently, the share of loans in overall deposits makes up 54.72%, which marks an increase in comparison to last year figures (see Table 3.5). This period has been characterized with faster growth of time deposits compared to the overall deposits. Thus, the time deposits now comprise approximately 61% of the overall deposits, in comparison with only 48%, as they were in May 2004. This is the most positive trend marked in this sector. This has influenced the stabilization of loan potential, which was reflected in the increase of loans by about 34.5%. However, the level of savings is still low compared to neighboring countries.<sup>61</sup>

Certain newspapers have expressed an opinion that the maintenance of funds like those of the Pension Trust and the privatization process abroad has negatively impacted the domestic loan potential.<sup>62</sup>

**46.** The majority of loans have been granted to the trade sector (56.4%) – see Table 3.6. Yet, this year the largest increase in the number of loans as occurred within the services and industry sector. This is an encouraging indicator on the improvement of sector loans. However, the industrial and agricultural sectors still take out the smallest portions of loans (only about 16%), because loan conditions continue to be unfavorable and unbeneficial for the manufactory businesses.

**47. Unemployment.** The number of registered jobseekers is continuously increasing, showing almost the same trend as in previous years. The total number of registered jobseekers at the end of May 2005 was 311,230, while 9,248 new jobseekers were registered since the beginning of this year.<sup>63</sup>

Out of the total number of registered jobseekers, 92% are Albanians, 3.2% are Serbs and 4.8% are members of non-Serb minorities.<sup>64</sup>

It has been observed that there is a positive correlation between qualifications obtained and increased job opportunity. The highest proportion of unemployed persons – approximately 59% - is categorized by individuals without any skills. The highest employment rate has been marked among people with high school and university degrees. Compared to all the other groups, the number of registered unemployed with university degrees decreased in 2005. It seems that there is a

**Table 3.5. Deposits and loans (million €)**

	May 2004	May 2005	Index
Deposits	574.014	731.159	127.4
Time deposits	254.429	444.645	174.8
Loans	297.542	400.074	134.5
Loans/ deposits	51.84%	54.72%	

Source: BPK, Monthly Statistical Bulletin, May 2005.

**Table 3.6. Loans according to economic sectors (%)**

	May 2004	May 2005	Increase/ decrease
Trade	51.5	56.4	9.5
Services	13.0	18.1	38.8
Industry	9.6	13.0	35.4
Agriculture	2.6	2.8	7.8
Others	23.3	9.8	-41.8

Source: BPK, Monthly Statistical Bulletin, May 2005.

<sup>61</sup> The amount of deposits in Albania in April 2005 was about 3,210 million Euros or 917 Euros per capita. Per capita deposits in Kosovo are assessed at 330 Euros, which is three times less than in Albania.

<sup>62</sup> *Bota Sot*, 28 June 2005; *Express*, 14 June 2005.

<sup>63</sup> Ministry of Labor and Social Welfare, June 2005.

<sup>64</sup> *Ibid.*

higher demand in the labor market for skilled workers; consequently the possibilities of these skilled people getting jobs are higher as well.

### **Privatization process**

**48.** During the second quarter of this year privatization has been accelerated, which has resulted in some positive outcomes. An additional 44 socially owned enterprises (SOE) have been offered for the third, fourth and fifth wave of tenders, pending approval of amended operational policies. To this number six additional new SOEs need to be offered via “Special Spin-off”. In first four waves the total value of the provisional winning bids was over € 62 million and more than 400 bids were received. Furthermore, after a considerable delay, the Kosovo Trust Agency (KTA) has finally approved the sales contracts of the winning bidders from the first three waves.

**49.** On April 24, UNMIK introduced “domenin eminent”<sup>65</sup> which facilitates fostering of the privatization process in Kosovo. The new KTA Board has encouraged the active participation and pragmatic approach in the privatization process. It has been considered that companies which find themselves in difficult business positions should be privatized first for the sake of public welfare. The KTA and the KTA Board will continue to carefully oversee the process and take the necessary measures.<sup>66</sup> Other important issues need to be addressed such as, how to attract investors and how to find solutions for a more rational treatment of the proceeds from the sale of assets.

**50.** The number of bidders seems to have decreased since the first privatization wave, especially in the case of the “Balkan” factory, a conveyor belt factory, and the factory producing galvanized cinch sheets in Vushtrri. This could indicate that there is a lack of investors that would be interested for bidding for medium and large SOEs. This could be related to the overall business and investment climate, but also to the lack of financial organization that would support privatization. It is time to carefully analyze this situation and initiate a program which will support privatization by attracting more foreign and domestic investors and which will consider possibilities for privatization crediting support.

**51.** What will happen to the proceeds from the privatization process is an issue that needs an immediate solution. According to KTA Regulation (REG/2002/12), the proceeds from the privatization process in regards to inherited debts and ownership claims will remain frozen even after their clarification. These proceeds will therefore not be used to generate economic growth or to create new jobs. They will also not be used to improve soft and hard infrastructures, as in other CEE countries. This is becoming a serious issue, as the amount of proceeds will soon reach 100 million Euros. A solution to this could be to transfer the proceeds from the KTA accounts in the “Privatization Social Fund”. In addition, the establishment of a “Restitution Fund”, which would address creditor’s claims, could be considered.

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<sup>65</sup> Based on the new KTA regulation, regardless of the status of ownership pre 1989, this ownership is under KTA mandate and will undergo privatization. In cases when KTA has made a mistake and is proved that certain company was Joint Stock Co. (or private ownership), then KTA is obligated based on “domenin eminent” to compensate the legal owners.

<sup>66</sup> Seminar organized by KTA (June 15, 2005)



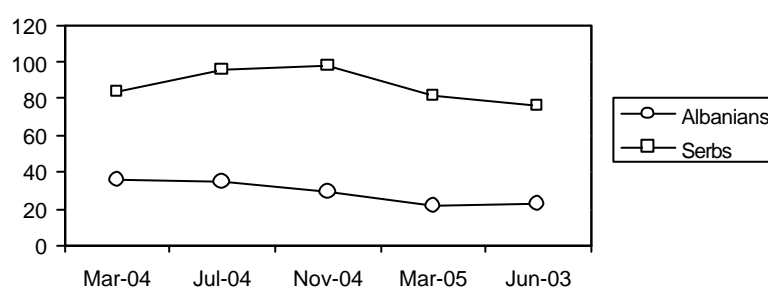
## Inter-ethnic Relations

### Trends in inter-ethnic relations

**52.** During the April-June 2005 period no significant changes in inter-ethnic relations were recorded in comparison with the previous reporting period of January-March 2005. Despite a few isolated cases,<sup>67</sup> inter-ethnic relations were more stable than in the period following the March 2004 riots.

**53.** A relatively more favorable situation concerning inter-ethnic relations was observed during the first half of 2005 in comparison to 2004. In order to have an understanding of this trend, Fig. 4.1 and Table A4.1 in the Annex reveal the results of opinion polls carried out from March 2004 to June 2005. The trend of the opinion “relations are tense and will continue to be tense” marked a decrease by all respondents. For Albanian respondents the trend marks a visible decrease during that time period – from 32% in July 2004 to 14% in June 2005. Similarly, while in November 2004 about 98% of Serb respondents answered that “relations are tense”, but during the first half of 2005 this opinion decreased to 76% (see Table A4.1 in the Annex).

In spite of these encouraging trends, the percentage of Serb respondents who think that inter-ethnic relations are tense, and will continue to be tense, is still very high.

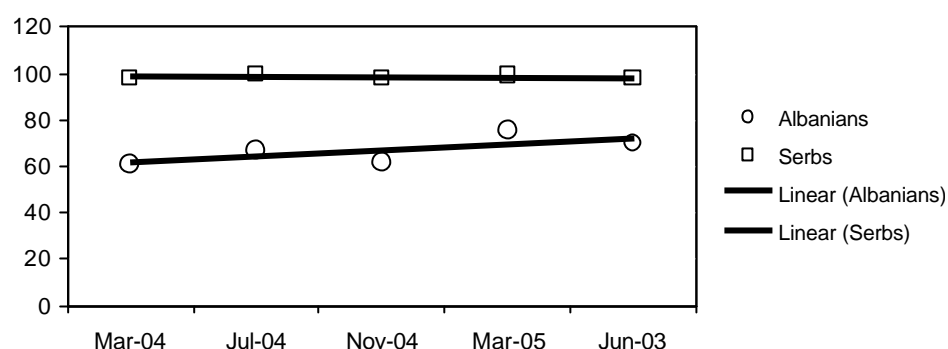


**Fig. 4.1. Opinions of Albanian and Serb respondents on the interethnic relations – “Relations are and will continue to be tense” (%)**

Source: Riinvest's opinion polls – March 2004 to June 2005

**54.** In general, there have been some positive trends regarding the readiness of Kosovo Albanians to agree with the return of refugees and displaced people. As can be seen from Fig. 4.2, the linear trend of the readiness of Albanian respondents to agree with the returns process is increasing on a small scale. Nevertheless, according to the results of the June 2005 survey, around 30% of Albanian respondents are not yet ready to agree with the returns process (Table A4.2 in the Annex).

<sup>67</sup> See the public and personal security chapter of this report for more details.



**Fig. 4.1. Respondents' readiness to support returns (%)**

*Source: Riinvest's opinion polls – March 2004 to June 2005*

55. Although, these trends are somewhat encouraging, in many aspects there are huge differences between Albanians and Serbs. Some of these differences are as follows:

- Albanians consider that Kosovo's unresolved status is one of the biggest problems facing Kosovo; however Serb respondents believe that public and personal security is the biggest problem. Serbians rank final status as the fourth biggest problem facing Kosovo - see Table A2.1 in the Annex.
- In regards to Kosovo's final status issue, the majority of Albanians think that the best solution for Kosovo would be independence. On the other hand majority of Serbs think that Kosovo should become an autonomous province within Serbia (see Table 2.1).
- Public opinion between Serbs and Albanians also differs in regards to the factors that aggravate relations between the two ethnicities - see Table 4.1. Albanians think that the "Serbs lack of readiness to integrate in Kosovan society" and "Belgrade's influence" are factors which contribute to inter-ethnic tensions, whereas Serbs think that the "attitude of Albanian leaders" and "insufficient integration efforts by Albanians" are the main contributing factors.

**Table 4.1. Public opinion on the factors causing tense relations between Albanians and Serbs (%)**

	July 2004		November 2004		March 2005		June 2005	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Insufficient efforts by Albanians for integration of Serbs	1.4	54.5	2.8	26.5	2.5	42.1	3.9	27.5
Lack of readiness of Serbs for integration into Kosovo society	43.8	0.0	41.3	0.0	32.4	0.0	35.4	0.0
Attitude of Albanian leaders	1.7	45.5	1.0	73.5	0.9	57.4	1.7	71.9
Attitude of Serb leaders	12.3	0.0	8.6	0.0	13.1	0.5	8.0	0.6
Belgrade's influence	40.7	0.0	46.3	0.0	51.0	0.0	50.9	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Source: Riinvest's opinion polls – March 2004 to June 2005*

**56.** Although the circumstances surrounding the return of Serbs to their homes have been increasingly favorable,<sup>68</sup> the returnees are facing a variety of difficulties. Kosovan Serbs have stressed that one of the main problems for them is to find a job.<sup>69</sup>

### Factors that could further improve inter-ethnic relations

**57.** Although during the reporting period there was no serious interethnic incident reported, relations are still very far from being satisfactory. With the aggravated mutual relations between Pristina and Belgrade, and the opposing expectations regarding the future status of Kosovo, there is not much maneuverability in terms of the circumstances that would positively effect these relations. Therefore, any favorable relations should be mentioned.

**58.** An opinion poll, conducted in March 2005, revealed that a high percentage of Albanians as well as Serbs believe that the decentralization process will positively influence inter-ethnic relations. The June 2005 survey reaffirmed this opinion. Currently, approximately half of Albanian respondents and around two-thirds of Serb respondents share this opinion - see Table 4.2. This suggests that the decentralization process needs to be implemented at a quicker pace while preventing any kind of ethnic division that could later result in provoking more inter-ethnic tension.

**59.** Since the March 2004 riots, Belgrade officials have influenced Kosovo Serbs not to take part in Kosovan institutions. Furthermore, some officials are also discouraging the return of Kosovo Serbs by denying achievements that have been made in Kosovo and by telling Kosovo Serbs displaced in Serbia that they having

**Table 4.2. Opinions on the influence of decentralization on inter-ethnic relations (%)**

	March 2005		June 2005	
	Albanians	Serbs	Albanians	Serbs
Relations will deteriorate	24.6	15.5	24.3	11.9
Relations will not be affected	28.8	53.6	24.6	22.4
Relations will improve	46.6	31.0	51.2	65.7
Total	100.0	100.0	100.0	100.0

*Source: Riinvest's opinion polls – March 2005 and June 2005*

nothing to gain if they return to Kosovo.<sup>70</sup> Complaints against such positions have been expressed by the Kosovo Serb representative in the Kosovo Government, Minister Slavisa Petkovic, who declared in a meeting with EU high representatives that measures have been undertaken to ensure safe IDP returns, but certain circles in Belgrade were impeding this process.<sup>71</sup>

In order to encourage Kosovo Serbs to return and to create a more relaxing climate for better inter-ethnic relations, it is important that the international community continues pressure on Belgrade and Pristina.

**60.** The Media also play a huge role in both aggravating and improving inter-ethnic relations.

<sup>68</sup> During a visit that COMKFOR Yves de Kermabon paid to Rahovec, he declared: "A long time is required to rebuild trust here, but I think that conditions have been created for the return of Serbs", *Koha Ditore*, April 5, 2005.

<sup>69</sup> Kosovo Ombudsman Nowicki: "Difficult position of Serb returnees in Kosovo", *RTS*, June 11, 2005.

<sup>70</sup> Serbian Prime Minister Vojislav Kostunica in a press conference in Belgrade declared that he was against the return of Kosovo Serb political representatives to Kosovan institutions, by adding that "a return to institutions would provide fake proof that democratic standards in Kosovo have been implemented"; *Epoka e Re*, April 16, 2005.

<sup>71</sup> *Koha Ditore*, April 16, 2005.

The Serbian language media in Serbia gives a lot of publicity to the cases of violence against Serbs. There are cases when immediately after a violent incident the incident is blamed at Kosovo Albanians, rising fear among Serbs in Kosovo. An example of this is the case when an elderly Serb couple was found beaten in the village of Cerkoz. The Serbian language media claimed that the couple was beaten by Albanians. The SRSG asked for caution and explained that the incident was not ethnically motivated<sup>72</sup>. The final investigation findings and the police report that the incident was not ethnically motivated did not get the same coverage in the media and media did not correct their preliminary reports of interethnic violence.<sup>73</sup>

The Kosovo Albanian media does cover successful return projects, however does not present many cases of successful returnees or cohabitation. The headlines are still concentrated in the political situation.

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<sup>72</sup> This case was described also in the Early Warning Report no. 9.

<sup>73</sup> According to *Bota Sot* newspaper, a Serb resident from Cerkoz, who wanted to remain anonymous, declared that the "Serb old couple was beaten up by their own son, Zivan Ivic, who has been pressuring them to sell their property since the end of the war"; *Bota Sot*, 5 April 2005.



## *Public and Personal Security*

### **The security situation**

**61.** The security situation during April to June 2005 can be generally characterized as a stable period in comparison with the situation that had prevailed after the violent March 2004 riots. The April-June 2005 period has also been described as a period of stability by the SRSg, Mr. Søren Jessen-Petersen.<sup>74</sup>

The respondents were of the same opinion in a poll carried out for this report in the second half of June of 2005. As can be seen from Table 5.1, very few respondents, irrespective of their ethnic affiliation, consider that the situation has worsened, whilst more than half of the Albanian respondents and those of non-Serb minorities consider that the security situation has improved in comparison to the previous year.

**62.** The stable security situation, as well as the strong commitment of KFOR and the UNMIK Police not to allow any repetition of similar events to those of March 2004, has reflected itself positively in the satisfaction of Albanian respondents in the assessment of the performance of these institutions – see Table A5.1 in the Annex. According to the opinion poll carried out in June 2005, 92.9% of the Albanian respondents are “satisfied” or “very satisfied” with the work of KFOR and 63.7% are satisfied with the work of the UNMIK Police. This represents a 10% increase in comparison to the last reporting period. The satisfaction of the Serb respondents with the work of these institutions has dropped, especially among the respondents in the Mitrovica region, which could be the result of their protest against the partial opening of the bridge over river Ibar for pedestrian use. This bridge links the north and the south of Mitrovica.

**63.** Despite the improvement of the overall security situation, some major offences have increased in number during the January to June 2005 period in contrast to the same periods in previous years – see Table 5.2.<sup>75</sup> An increase has been observed in grievous assaults, arson and robberies.

**Table 5.1. Opinions regarding the security situation in Kosovo compared to one year ago (%)**

	Albanians	Serbs	Others
The situation is worsened	3.4	2.1	5.4
The situation remained the same	29.2	93.8	39.9
The situation is improved	67.4	4.1	54.7
Total	100.0	100.0	100.0

*Source: Riinvest opinion poll – June 2005*

**Table 5.2. Crime statistics recorded during the first period (January 2005 to 30 June 2005) and statistics for the same period in 2001, 2002 and 2003**

Major offences	2001	2002	2003	2005
Murder and attempted murder	185	126	98	124
Kidnapping	80	55	41	52
Grievous Assault	153	107	241	222
Arson	136	85	246	273
Robbery	232	200	183	251

*Source: UNMIK Police, Press Office, various reports.*

<sup>74</sup> Address of SRSg Søren Jessen-Petersen to a peace-building conference at the Center for Security Policy in Geneva, July 2005.

<sup>75</sup> This table does not contain data for the year 2004 since those results differ significantly due to the March 2004 riots and are not comparable.

According to official data, the overall clearance rate of serious crimes in the January – June 2005 period has been approximately 44%. Amongst serious crimes, relatively low clearance rates have been achieved for arson cases (48%), burglaries (24%), robberies (29%), and bombings (40%).<sup>76</sup>

**64.** The relatively stable security situation has also contributed to the increase of the freedom of movement of citizens from all ethnic communities across Kosovo, but especially in communities that were less involved in the 1999 conflict. Although the desired level of freedom of movement of Serb citizens in all parts of Kosovo has not yet been achieved, it should be noted that in the largest part of northern Kosovo, which is still not fully controlled by the PISG and UNMIK, the freedom of movement is curtailed to Kosovo Albanians.<sup>77</sup>

### **Explosions endanger security**

**65.** According to official data, from the beginning of January to the end of June 2005, 45 explosions were reported.<sup>78</sup>

The particularity of these explosions consists not only in the fact that they seem to have been directed against important public and party-affiliated persons or property, but that they also targeted private property. Besides the cases registered in the previous Early Warning Reports,<sup>79</sup> the following cases have been reported during the first half of this year:

- On May 9 in north Mitrovica a bomb was thrown into a house in the Bosniac Mahala a neighbourhood where Bosnians and Albanians live;
- On May 11 a blast rocked the house of a Serb in Klokot near Viti/ Vitina;
- On May 14 a powerful explosion went off near the Orthodox Church in Viti/ Vitina;
- On June 17 two explosive devices went off in the vicinity of a recently returned Serb family in Klina;
- On July 2 three near simultaneous explosions rocked the very center of Pristina.<sup>80</sup>
- On July 4, a bomb was thrown at the headquarters of Minister Slavisa Petkovic's political party in the north of Kosovo in Zubin Potok.<sup>81</sup>

**66.** As the Early Warning Report #9 has emphasized, a cause for concern in all the recent and similar previous bombing cases is the sophisticated manner of the attacks. According to official data, out of all the bombing cases reported in the first half of 2005, only 18 investigations had been closed - approximately 40% of the overall number of cases. This indicates that the perpetrators of these cases are well-

<sup>76</sup> UNMIK Police, Press Office, July 2005.

<sup>77</sup> "Ibar bridge is free but impassible", Zëri, 21 June 2005.

<sup>78</sup> UNMIK Police, Press Office, July 2005.

<sup>79</sup> On February 10 an explosive device went off under the car of Mr. Oliver Ivanovich, who is one of the Kosovo Serb leaders. On March 10 two hand grenades have gone off in the immediate vicinity of UNMIK Headquarters in Pristina; on March 15 an assassination attempt was carried out against president Rugova in Pristina; and on April 17 a major blast demolished the party office of ORA.

<sup>80</sup> One of the explosions caused damage to three UN vehicles, while another blast occurred at a commercial building opposite the offices of the Organization for Security and Cooperation in Europe (OSCE). The third explosion caused minor damage to a government building; see <http://www.unmikonline.org/news.htm>

<sup>81</sup> Minister Petkovic has accused a local northern Mitrovica Serb leader in regards to this attack: "According to information that I have received from my private sources, the Serb National Council (SNC) from the north of Kosovo and Marko Jaksic are behind the bomb attack. I will ask the international police to declare the SNC a terrorist organization"; all daily newspapers in Albanian language, July 7, 2005

organized professionals, and that the investigative police work on such cases has not reached the level required to successfully resolve the cases and bring the perpetrators to justice.

### Corruption on the rise

**67.** According to Transparency International (TI), developing countries and the majority of the Balkans are characterized by a high rate of corruption.<sup>82</sup> Kosovo is no exception in this respect. The circumstances and actual processes in Kosovo, which are characterized by transitional socio-economic difficulties, and the consequences and traumas of armed conflict, make the situation in Kosovo very conducive for corruption. The opinion poll indicates that perceptions of corruption are on the rise.

**68.** Tables 5.3 and 5.4 reflect the personal experiences of respondents related to corruption. Based on personal experience of Albanian respondents, within an approximately one-year period perceptions on corruption has increased - from 11.7% in July 2004 to 18.3% in June 2005. The percentage of conditioning services for bribes, gifts and other favors has also increased within the same period - see Table 5.4.

**69.** In a debate about corruption in Kosovo, which was organized in Pristina on April 16, 2005,<sup>83</sup> it was concluded that little has been done in fighting corruption, especially in the establishment of efficient mechanisms for that purpose. The participants in the debate have agreed that corruption is pervasive in Kosovo and that it has even managed to acquire a legal and institutional foundation. According to the participants, this is due the lack of oversight which would monitor and control the functions of public institutions and due to the fact that the offices of public procurement often have employees who are themselves affiliated to a political party or have relatives affiliated to a political party.

**70.** The danger posed to various governmental and public institutions by corruption has been highlighted within previous EWS reports. Based on opinion polls carried out by the Early Warning System, the following characteristics have been identified in Kosovo, which according to Transparency International (TI) are common for countries with high corruption rates:<sup>84</sup>

- Most of these societies have experienced totalitarianism and/or civil conflicts in the past.

**Table 5.3. The extent of corruption based on personal experience of respondents (%)**

	Albanians	Serbs	Others
July 2004	11.7	21.0	12.1
November 2004	12.1	14.8	15.0
March 2005	15.0	29.6	12.8
June 2005	18.3	25.0	11.1

Source: Riinvest opinion poll – July 2004 to June 2005

**Table 5.4. The rate of conditioning services for bribes, gifts and other favors (%)**

	Albanians	Serbs	Others
July 2004	8.5	26.5	10.9
November 2004	11.8	23.7	8.3
March 2005	11.0	28.0	3.1
June 2005	15.7	26.1	11.4

Source: Riinvest opinion poll – July 2004 to June 2005

<sup>82</sup> More detailed information on corruption in developing countries can be found on: [www.user.gwdgt.de](http://www.user.gwdgt.de)

<sup>83</sup> "Kosovo state threatens to be built on corruption", *Koha Ditore*, April 17, 2005. The debate was organized by an NGO, Kosovo Action for Civic Initiatives (KACI).

<sup>84</sup> See article by Mytaher Haskuka published in *Koha Ditore*, February 12, 2004

- Although the majority have elected governments and are categorized as democracies, democratic institutions are at varying degrees of development.
- Unemployment is high and the state tries to alleviate unemployment by providing jobs in civil service/public sector.
- Those employed in the civil service/public sectors have low wages and depending on the size of their family the majority can be considered as living under or close to the poverty line.
- Undeveloped or weak civil society and media.

**71.** These features have not changed much during the last three years, thus indicating that the potential for a further increase of corruption in Kosovo continues to exist. Hence the PISG should intensively engage in eliminating circumstances that are conducive to spreading corruption.

## *ANNEX 1. Selected results of the opinion poll*

**Note.** The opinion poll for this Report was conducted in June 2005, by the “Riinvest” polling team. The part of the opinion poll conducted in the Serb enclaves was carried out by a local Serb NGO.

The survey was based on face-to-face interviews, and included 1,265 respondents: 922 Albanians, 196 Serbs, and 147 respondents from other minorities (45 Bosnians, 15 Goranis, 38 Turks, 3 Roma, 30 Ashkalis and 16 Egyptians). In order to increase the reliability of opinions of the minority groups, the number of respondents belonging to minorities was chosen to be higher than their percentage participation in the entire population of Kosovo.

The sample was stratified on the basis of geographic regions, and urban to rural population ratio (1:1). The target population was over 18 years of age.

### Sample Demographics

	Albanians	Serbs	Others	Total
<b>REGION</b>				
Prishtinë/ Pristina	27.8%	12.8%	18.1%	24.3%
Mitrovicë/ Mitrovica	12.8%	67.3%	16.8%	21.7%
Prizren	18.1%		30.9%	16.8%
Pejë/Pec	13.7%		16.1%	11.8%
Ferizaj/Urosevac	11.2%	10.2%		9.7%
Gjakovë/Djakovica	5.7%		13.4%	5.8%
Gjilan/Gnjilane	10.7%	9.7%	4.7%	9.9%
<b>EMPLOYMENT</b>				
Unemployed - not registered	32.6%	4.1%	21.5%	26.9%
Unemployed - registered	11.8%	3.6%	18.8%	11.4%
Working in public sector	11.6%	30.1%	17.4%	15.2%
Working in private sector - with contract	9.3%	24.0%	11.4%	11.8%
Working in private sector - without contract	8.0%	6.6%	12.1%	8.3%
Employed from time to time	3.1%	6.1%	1.3%	3.4%
Pensioner	6.2%	13.8%	6.0%	7.3%
Housewife	9.3%	3.1%	9.4%	8.4%
Student/ pupil	7.0%	8.2%	1.3%	6.6%
Other	0.9%	0.5%	0.7%	0.8%
<b>GENDER</b>				
Male	62.8%	62.8%	57.0%	62.1%
Female*	37.2%	37.2%	43.0%	37.9%
<b>EDUCATION</b>				
Average	10.8	12.52	9	10.8
<b>AGE</b>				
Average	38.5	42.1	40.3	39.3

\* Whenever gender opinions differed, corresponding values were appropriately weighed throughout the Report

**Table A1.1. Opinions of respondents on the creation of the Ministry of Interior (%)**

	Albanians	Serbs	Others
It is still early for creation of this Ministry; UNMIK should hold reserved competencies in the security sphere for some time though	2.5	67.9	9.4
This Ministry has to be created, under condition of being monitored by UNMIK	10.1	1.0	12.8
Creation of this Ministry is necessary, without any conditions	70.6	1.0	34.2
Don't know	14.5	12.8	33.6
Does not answer	2.3	17.3	10.1
Total	100.0	100.0	100.0

Source: Riinvest's opinion poll – June 2005

**Table A1.2. Opinions of respondents on the creation of the Ministry of Justice, not including “don't know” and “does not answer” responses (%)**

	Albanians	Serbs	Others
It is still early for creation of this Ministry; UNMIK should hold reserved competencies in the security sphere for some time though	2.4	97.9	16.7
This Ministry has to be created, under condition of being monitored by UNMIK	14.3	0.7	22.7
Creation of this Ministry is necessary, without any conditions	83.3	1.4	60.6
Total	100.0	100.0	100.0

Source: Riinvest's opinion poll – June 2005

**Table A1.3. Opinions of respondents on the creation of the Ministry of Justice (%)**

	Albanians	Serbs	Others
It is still early for creation of this Ministry; UNMIK should hold reserved competencies in the security sphere for some time though	2.0	68.4	9.4
This Ministry has to be created, under condition of being monitored by UNMIK	12.1	.5	12.8
Creation of this Ministry is necessary, without any conditions	70.5	1.0	34.2
Don't know	13.0	12.2	34.2
Does not answer	2.4	17.9	9.4
Total	100.0	100.0	100.0

Source: Riinvest's opinion poll – June 2005

**Table A2.1. Opinions on the biggest problems faced by Kosovo (%)**

	Albanians	Serbs	Others
Infrastructure (roads)	1.4	0.5	0.7
Power supply	3.3	0.0	2.0
Urban problems (unregulated building)	0.8	0.5	0.0
Environment	0.4	0.0	1.3
Poverty	16.9	6.1	16.8
Prices	0.3	0.0	0.0
Healthcare services	0.3	0.5	0.7
Public and personal security	0.9	32.1	0.7
Education	0.4	0.0	0.7
Interethnic relations	0.3	26.0	4.7
Unemployment	31.9	10.7	50.3
Uncertainty about the final status of Kosovo	32.8	6.6	16.1
Social problems	0.8	3.1	0.7
The fate of the missing	2.8	2.0	0.0
Organized crime	1.0	4.1	2.7
Unsolved killings and murders	2.5	0.5	1.3
Corruption	2.3	4.1	0.7
Unsocial behavior (prostitution, drugs)	0.1	0.0	0.7
Something else	0.8	3.1	0.0
Total	100.0	100.0	100.0

**Table A2.2. Percentages of respondents “dissatisfied” or “very dissatisfied” with the current political situation (%)**

	Jul-04	Nov-04	Mar-05	Jun-05
Albanians	44.0	35.1	35.5	32.1
Serbs	99.5	98.0	97.1	97.4
Others	31.1	33.0	25.7	28.2
Weighed average (%)	46.6	38.7	38.6	35.8

*Source: Riinvest's opinion polls – July 2004 to June 2005*

**Table A2.3. Respondents' readiness to join protests that could be organized due to the current political situation (%)**

	Albanians	Serbs	Others
Yes	46.6	75.5	47.7
No	43.1	11.7	26.8
Does not answer	10.3	12.8	25.5
Total	100.0	100.0	100.0

**Table A3.1. Respondents' satisfaction with the economic situation of their households (%)**

	Albanians	Serbs	Others
Very dissatisfied	8.4	11.3	13.4
Dissatisfied	21.8	47.2	21.5
Neither satisfied nor dissatisfied	39.0	34.4	38.3
Satisfied	27.1	7.2	23.5
Very satisfied	3.7	0.0	3.4
Total	100.0	100.0	100.0

**Table A3.2. Respondents' expectations regarding business conditions six months hence (%)**

	Albanians	Serbs	Others
Unfavorable	44.7	92.7	50.0
Neither favorable nor unfavorable	35.9	7.3	31.1
Favorable	19.5		18.9
Total	100.0	100.0	100.0

**Table A3.3. Respondents' readiness to join protests that could be organized due to the current economic situation (%)**

	Albanians	Serbs	Others
Yes	63.0	78.6	55.7
No	30.4	13.3	23.5
Does not answer	6.6	8.2	20.8
Total	100.0	100.0	100.0

**Table A4.1. Opinions on inter-ethnic relations between Albanians and Serbs (%)**

	July 2004		November 2004		March 2005		June 2005	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Relations are and will continue to be tense	34.6	96.0	28.8	98	21.2	81.3	23.0	76.0
Relations are tense, but some improvements have recently occurred	32.1	3.5	28.3	1.5	32.2	13.4	32.2	14.0
Relations are tense, but considerable improvements have been marked	14.6	0.5	18.1	0.0	19.9	4.8	18.1	9.4
Relations are not so tense	12.6	0.0	14.8	0.0	13.1	0.5	12.3	0.6
Relations are not tense at all	6.1	0.0	10.0	0.5	13.5	0.0	14.4	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Riinvest opinion surveys – July 2004 to June 2005



**Table A4.2. Respondents' readiness to agree with the return of displaced persons and refugees to Kosovo (%)**

	Albanians	Serbs	Others
Agree with the return	69.9	97.9	85.4
Do not agree with the return	30.1	2.1	14.6
Total	100.0	100.0	100.0

**Table A5.1. Percentages of respondents "satisfied" or "very satisfied" with the performance of security institutions (%)**

	Albanians					
	Nov-03	Mar-04	July-04	Nov-04	Mar-05	Jun-05
KFOR	81.4	88.4	85.6	85.7	84.9	92.9
UNMIK Police	53.5	57.1	44.2	41.6	54.7	63.7
KPS	89.7	90.5	89.9	88.2	92.7	90.3
	Serbs					
	Nov-03	Mar-04	July-04	Nov-04	Mar-05	Jun-05
KFOR	16.4	11.4	10.7	10.6	14.7	6.4
UNMIK Police	13.4	3.7	3.7	4.8	6.1	2.1
KPS	14.3	3.0	1.8	0.5	4.0	1.6

Source: Riinvest opinion polls – November 2003 to June 2005



## *ANNEX 2. Events during the period April-June 2005*

### **April**

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- **10 April** – A Kosovo delegation, comprised of Minister for Local Self-Government Lufti Haziri and Minister for Returns and Communities Slavisa Petkovic, paid a visit to IDPs in Berane, Montenegro. After the visit, Minister Haziri declared that the IDPs in Montenegro are uninformed about the positive developments in Kosovo and that they managed to convince refugees in some of the camps to visit Kosovo, to come and see municipalities and their homes in Kosovo and see for themselves the reality in Kosovo.
- **15 April – Serbian** Prime Minister Vojislav Kostunica told a press conference in Belgrade that he was against the return of Kosovo Serb political representatives in Kosovo institutions. He added that for the time being contacts between Pristina and Belgrade should be limited in the working groups.
- **21 April** – UNMIK spokesperson Marcia Poole announced that UNMIK's expert team has so far discovered the remains of 13 people in the cave near Klina. She confirmed that the first findings of the investigation point to the fact that at issue are the mortal remains of non-Albanians.
- **26 April** - Around 150 Roma have protested in the north part of Mitrovica demanding return to their homes. Roma representatives have expressed dissatisfaction with the agreement reached between UNMIK and Mitrovica local authorities that foresees their return to the south part of the town. They said they want to have their land back and not be compensated with flats.

### **May**

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- **1 May** - SRSG Søren Jessen-Petersen has handed over the draft for the political forum to Kosovan leaders.
- **2 May** - The European Investment Bank and UNMIK finalized the agreement with which the EIB can finance economic development projects in Kosovo. "With the signing of this agreement, EIB will be ready to offer loans for Kosovo, but it is clear that loans should focus on genuine projects that generate income," added the UNMIK chief.
- **3 May** - The PDK submitted to UNMIK a document that contains serious accusations against senior government officials for involvement in illegal activities.

- **19 May** - The international panel in the Gjilan/ Gnjilane District Court has found guilty the 6 accused charged with killing of Slobodan Peric and his mother during March 2004 riots.
- **19 May** - Kosovo Assembly debated on the process of decentralization. The LDK and AAK have supported the government plan for decentralization, whereas the opposition (PDK and ORA) wants the pilot projects to be announced as a failure.
- **26 May** - Noting concrete progress in Kosovo toward internationally-agreed standards in such areas as government reform, the rule of law and minority rights, United Nations Secretary-General Kofi Annan, in a report out today, stressed that continuing progress must be made in all priority areas for any future political settlement to proceed.

## June

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- **3 June** - United Nations Secretary-General Kofi Annan appointed Ambassador Kai Eide, Permanent Representative of Norway to the North Atlantic Treaty Organization (NATO), as his Special Envoy to carry out a comprehensive review of Kosovo.
- **6 June** - The International Criminal Tribunal for the Former Yugoslavia has granted provisional release to former Kosovo Prime Minister Ramush Haradinaj.
- **6 June** - The Kosovo Police Service (KPS) has taken control over the main bridge in Mitrovica. So far, the main bridge was under the supervision of KFOR troops. Albanian and Serb police officers will supervise the bridge and ensure safe movement of vehicles and pedestrians.
- **7 June** - The Kosovo Political Forum, comprised of the biggest political parties, held its first meeting in Pristina.
- **8 June** - The US Under-Secretary of State, Nicholas Burns, paid a visit to Kosovo. "Year 2005 is decisive for Kosovo", declared he during the visit.
- **13 June** - The UN Special Envoy Kai Eide arrived in Kosovo. "I will not only look at the documents, but I will also see the real situation on the ground", declared he.
- **14 June** - The Working Groups of Pristina and Belgrade met to discuss issues related to energy and agreed to continue mutual cooperation.
- **18 June** - The construction of 44 houses for more than 220 Serb refugees has commenced in the village of Zociste in the Rahovec/ Orahovac municipality. The project, in the value of 1,8 million Euros, is financed by the Kosovo Ministry for Return and Communities.
- **30 June** - The Kosovo Political Forum has created its Secretariat and reached the agreement on modalities of preparations for status talks and on dialogue with Belgrade.
- **30 June** - The Legal Office of the UN Headquarters in New York gave the authorization for the transfer of competences to Kosovans.

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